

Statement of Chairman Candice S. Miller
Chairman
Subcommittee on Regulatory Affairs
Committee on Government Reform
Washington, DC
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Good afternoon, ladies and gentlemen.

We are here today to discuss ongoing oversight of the Internal Revenue Service in its taxpayer paperwork burden reduction efforts, particularly in relation to the provisions under the Paperwork Reduction Act.

Like paying taxes, paperwork is an inevitable part of an American adult's responsibilities. Each year federal agencies collect a variety of information from individuals. This information may be helpful for the agencies, but it can also be a nuisance to individuals and businesses. A perfect example of this type of agency is the IRS.

For individuals, tax paperwork is confusing and time consuming. In 2001, the Joint Committee on Taxation released a study that stated individual taxpayers filing Form 1040 could encounter 79 lines on their return, 144 pages of instructions, 19 separate worksheets as well as the possibility of filing numerous other forms.

For small businesses, the burden is equally troublesome. In 2001, the Small Business Administration, Office of Advocacy released a report on the regulatory costs of tax paperwork compliance faced by small firms. At that time, the typical small business faced a burden of over \$1,200 per employee to comply with tax paperwork, record keeping, and reporting requirements. Small businesses make up 99% of all U.S. businesses and employ over one-half of the American work force. Yet, the tax compliance burden for them is more than twice that faced by large firms.

Paperwork burden is not a new problem. The desire to reduce government burden has long been recognized by Congress. In 1980, Congress enacted the Paperwork Reduction Act and established the Office of Information and Regulatory Affairs within the Office of Management and Budget, whose primary responsibility is paperwork reduction. In 1986 and 1995, Congress passed amendments to the PRA and set government-wide paperwork reduction goals of 10% for fiscal years 1996 and 1997, a 5% reduction in each of the next 4 fiscal years, and annual paperwork goals thereafter that reduced burden to the "maximum practicable opportunity."

To this date, these goals have not been realized. By the end of fiscal year 2001, these reduction goals would have placed government-wide burden at 4.5 billion hours. But, these burden levels were a significant contrast to the mandated 35% reduction goal: 7.6 billion hours. Now, burden is about 8 billion hours. Interestingly enough, only one agency is accountable for 80% of this figure – the IRS.

Information collected as part of the tax system is the principal ingredient in an overstuffed pot of paperwork burden imposed by the federal government. Present estimates show that nearly 6.5 billion hours of paperwork burden is a result of the IRS.

Even though the IRS accounts for 80% of the burden, it does not account for 80% of information collections. In fact, current estimates show that out of nearly 8,000 information collections government-wide, IRS collections only account for approximately 800, which is roughly 10%. Of these 800 forms, only 10 are culpable for producing about 80% of the IRS burden. The basic tax returns – Form 1040 and its associated schedules – measure at 1.6 billion hours, or 24% of all IRS burden.

To be fair, part of the IRS challenge in reducing taxpayer burden is the complex Internal Revenue Code. However, the Code's complexity also underscores the importance of creating tax forms and instructions that are as clear and understandable as possible.

Moreover, even though a statute may require the IRS to take certain action, the agency does have discretion in the manner and frequency with which the information is collected, and even if it needs to be collected.

The IRS has taken its own initiatives to curb the rise in its paperwork burden. In 2002, the IRS created the Office of Taxpayer Burden Reduction.

The IRS has also expanded its E-Government projects by creating an interactive customer service link on the website and increasing efforts for e-filing.

Although these IRS administrative and E-government initiatives are a step in the right direction, it will take more than a piecemeal approach to tackle this 6.5 billion hour goliath. The IRS needs to satisfy the vision of the PRA by establishing creative and innovative approaches to reduce the burden on the American citizenry without relying on Congress to stop implementing tax-related measures.

And perhaps Congress needs to make some adjustments to the PRA to make significant changes to burden.

I look forward to working with you all on this.